

CHAPTER 13MANAGING INTERNAL AUDIT OPERATIONS**A. PURPOSE**

This chapter **covers** the responsibilities of audit management for ensuring that audits conducted fulfill the mission and responsibilities approved for the DoD internal audit organizations by the leadership of the Department of Defense and the Military Departments, that resources are employed efficiently and effectively, and that **audits** conform to generally accepted government auditing standards and DoD internal audit policies and procedures.

**B. APPLICABILITY**

This chapter **applies** to the DoD internal **audit** organizations. While compliance with this chapter is not required of internal review and nonappropriated fund audit organizations, those organizations are strongly encouraged to apply the policies, as appropriate.

**C. STANDARDS AND POLICIES**

Sections 600 and 700, DoD Internal Auditing Standards (Chapter 2 of this Manual), include nine standards applicable to the management of a DoD internal audit organization. **Complete** guidance for two standards and a portion of the guidance for two others are covered in this chapter. Policy guidance for the remaining standards is provided in the other chapters of the Manual. The following identifies the applicable chapter (s) for the nine standards:

<u>Standard</u>	<u>Chapter</u>
610- Organization	13
620- Policies and Procedures	13
630- Scope and <b>Responsibility</b>	5
640- Determination of Audit Priorities	5
650 - Planning	5 & 13
660 - Coordination	6
670- Internal Audit Organization Qualifications	4, 11 & 13
680- Personnel Management and Development	4
700 - Quality Assurance	14

The following sections discuss standards 610, 620, 650 and 670.

## D. ORGANIZATION

### 1. General Guidance

a. The head of each DoD internal audit organization shall **report** directly to the Secretary or Deputy **and/or** Under Secretary of the applicable **DoD Component**. No intermediary organizational element within the **DoD Component** shall exercise technical direction over the applicable DoD internal audit organization.

b. The **DoD** internal audit organization shall be structured to help ensure that audit resources are deployed efficiently and effectively and to foster coordinated, balanced, and integrated **accomplishment** of the organization's mission, goals, and objectives.

c. The methods of recruiting, staffing, and training of **personnel** resources shall ensure the mission and responsibilities of the DoD internal audit organization are **supported**. While the **audit** organization should not **be** structured around available skills, full advantage shall be taken of those skills that are available.

d. The **DoD** internal **audit** organization shall reflect the unique **audit** needs of the Military Departments and Agencies. Whether this is done by **function**, by parallel structure, or by sane **combination** of both, the way in which each office is organized should simplify, and not complicate, the ability of **audit** personnel to review the Military Department or Agency programs and operations.

2. Resource Requirements. The **DoD** internal **audit** organization should determine and **document** personnel resources as to numbers and skills required to provide audit coverage **using** as a minimum a 3-year cycle for **those** major programs or functions determined to have a high vulnerability. Annual budget requests **should** reflect the **audit** coverage shortfall when sufficient staffing and funding are not provided to **accomplish** high priority audit coverage within the 3-year cycle.

### 3. Goals and Objectives

a. A formal process should **be** developed for the **establishment** of organizational goals and objectives. The goals and objectives should be designed to **promote** improvements in the efficiency and effectiveness of audit operations and staff qualifications, productivity, and job satisfaction. In developing individual goals and objectives, inputs should **be** solicited from senior audit management and staff members.

b. A detailed action plan should be prepared for each goal and objective with estimated **completion** dates. The status of each action plan should be tracked and adjusted as necessary. Responsibility for implementation of action plans should be assigned and incorporated in applicable employee performance appraisal documents. The goals and objectives should be reviewed and **updated** on an annual basis, as **appropriate**.

## E. POLICIES AND PROCEDURES

### 1. General

a. **The** head of the DoD internal **audit** organization shall provide written policies and procedures to guide the audit staff. DoD auditing standards **and** policies, as well as DoD/Military Department regulations, shall be implemented in organizational directives or **regulations**.

b. An **auditor's** handbook or manual should be prepared covering the policies, procedures, techniques, and methodologies to be **followed** by the staff in planning, performing, and reporting **audit** activities. The principal value of an auditor's handbook or manual is threefold:

(1) It serves as a ready reference for the staff to use in **performing** audits.

(2) It helps the audit staff make decisions regarding a broad array of **judgmental** factors encountered in every audit.

(3) It serves as a **quality** control device.

c. Procedures for supervisory auditors should be developed to cover their specific responsibilities in planning and managing individual **audit** projects.

### 2. Assessing Accomplishments

a. In order to evaluate organizational performance, each audit **organization** should have a data base **system** (s) that provides, at a **minimum**, for **comparing** actual and **Planned** performance on individual major audit projects (**single** installation **level audits** may be excluded) , measuring audit resources devoted to various functional areas, tracking direct and indirect audit **time** and/or cost, and **accumulating monetary** and other benefits resulting from audits.

b. The data generated by these data systems should be analyzed periodically to identify deviations from planned **performance**, assess deviations from predetermined standards or goals, and identify performance trends. The information gathered **from** such evaluations should be used to develop **plans** to improve the efficiency and effectiveness of **audit** operations. Such **improvements**, for example, might result in an improved planning process, identification of more cost-effective approaches to audits, reorganization of headquarters or field operations , and justification for additional resources.

### 3. Productivity Programs

a. The head of each DoD internal **audit** organization shall establish and implement a Productivity Improvement Program in support of Executive Order 12552 (reference (qq) ). **The** goal of the program should be to improve the quality, timeliness, and efficiency of the audit organization.

b. Each DoD internal **audit** organization should establish effectiveness and efficiency measures and goals **commensurate** with the **complexity** of its mission and functions, budget, and standards for quality and timeliness.

## F. PLANNING

1. **An** organizational planning process should be provided to ensure that the audit organization keeps pace with changes in **DoD/Military** Department programs , emerging technologies, and other external developments. Organizational planning involves the estimating or anticipating of the type of organizational **structure**, manpower, facilities, training needs, audit techniques, etc., needed to direct an effective audit function over a long period of time.

2. Organizational planning requires that senior audit management off **icials** obtain sufficient information **from** external sources to anticipate changing **con-**ditions and develop long-term strategies. This may be done by participating in professional organizations and **state-of-the-art conferences**, sponsoring research or testing of new **audit** techniques or methodologies, and meeting with senior **DoD**, Military Department, or other Federal Agency officials.

## G. INTERNAL AUDIT ORGANIZATION QUALIFICATIONS

The **DoD** internal audit organization shall possess or obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities. Formal **documentation** should exist covering the analysis of skill **needs** and the **iden-**tification of shortfalls in numbers of personnel by skill level. A plan should be developed to address any shortfalls through the recruitment of personnel, training programs, and/or use of personnel external to the **audit** organization.